



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. G 03-82
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
SAFECO NATIONAL LIFE INSURANCE)	AND ORDER ADOPTING REPORT
COMPANY)	OF
A Domestic Insurer.)	FINANCIAL EXAMINATION

BACKGROUND

An examination of the financial condition of **SAFECO NATIONAL LIFE INSURANCE COMPANY** (the Company) as of December 31, 2000, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on June 11, 2003. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 2 through 24 of the report.

SAFECO NATIONAL LIFE INSURANCE COMPANY
Order Adopting Examination Report
September 19, 2003

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **SAFECO NATIONAL LIFE INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

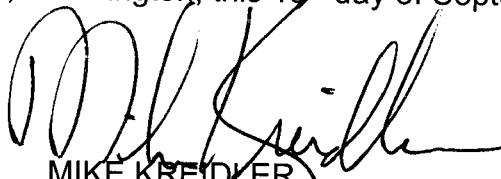
The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 2 through 7.

1. The Company is ordered to keep full and adequate accounts and records of its assets, obligations, transactions and affairs in compliance with RCW 48.05.280. Instruction 1, Examination Report, page 2.
2. The Company is ordered to review and continue its efforts to substantially strengthen controls in the filing of its Annual Statements in compliance with RCW 48.05.250(1). Instruction 2, Examination Report, page 3.
3. The Company is ordered to keep complete and correct finance committee minutes in compliance with RCW 48.13.340 and RCW 48.05.280. Instruction 3, Examination Report, page 4.
4. The Company is ordered to comply with RCW 48.31B.030(1)(b)(i)(B) which requires prior approval of all inter-company transactions which exceed 3% of the Company's prior year's admitted assets. Further, the Company is ordered to ensure compliance with all provisions of Chapter 48.31B RCW and is given notice and is subject to all applicable remedies contained in RCW 48.31B.050. Instruction 4, Examination Report, page 5.
5. The Company is ordered to require that its custodian(s) be able to produce accurate, reliable listings of all securities at amortized par value for purposes of accurate reconciliation and reporting in compliance with RCW 48.05.280. Instruction 5, Examination Report, page 5.

6. The Company is ordered to submit for approval to the OIC an inter-company agreement with SAFECO Asset Management Company (SAM) and all pertinent affiliates in compliance with chapter 48.31B RCW and RCW 48.31B.050. Instruction 6, Examination Report, page 6.
7. The Company is ordered to adopt individual investment guidelines that cover the investment requirements in the Washington Insurance Code. Comments and Recommendations 1, Examination Report, page 6.
8. The Company is ordered to review all custodial agreements to ensure the inclusion of a provision which provides for legal succession of all rights and responsibilities under the original custodial agreement. Comments and Recommendations 2, Examination Report, page 7.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 19th day of September, 2003.


MIKE KREIDLER
Insurance Commissioner



RECEIVED
JUL 16 2003

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INSURANCE COMMISSIONER
COMPANY SUPERVISION

July 14, 2003

CONTINUED

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Office of the Insurance Commissioner
P. O. Box 40255
Olympia, WA 98504-0255

Re: Examination Report of Safeco National Life Insurance Company
as of December 31, 2000

Dear Mr. Odiorne:

Enclosed are Safeco's responses to the draft reports of examination. Do not hesitate to contact me if questions or concerns arise in the course of your review.

We would like to take this opportunity to express our appreciation for the professionalism demonstrated by the Department staff. We appreciate having had the opportunity to work with them.

Sincerely,

Laura M. Murphy
Counsel

Enc.

SAFECO NATIONAL LIFE INSURANCE COMPANY
("the Company")

COMPANY RESPONSES

Safeco National Life Insurance Company has reviewed the Instructions, Comments and Recommendations contained in the Report of Examination (as of December 31, 2000), and makes the following responses. In general, corrections or changes in procedure required by the report already have been put into place. There are some matters about which the Company disagrees with the report's findings, and these are described below.

INSTRUCTIONS

1. Inadequate accounts and records

Item (a): The Company appreciates that the report notes that, by the end of the examination, the Company had reduced all bank account reconciliation variances to an immaterial amount.

Item (c): By virtue of a 1998 law change, insurance companies are no longer required to file amended articles of incorporation with the Secretary of State. The Department of Insurance has confirmed that the Company's filing of amended articles of incorporation was made in accordance with RCW 48.06.200 and 48.07.070.

2. Errors in annual statements

The Company will continue its ongoing action to enhance controls and comply with RCW 48.05.250.

3. Incomplete finance committee minutes

The Company has made the necessary corrections or change in procedures.

4. Short-term investments – Excess loan to affiliate

The Company has made the necessary manual corrections or changes in procedure. In addition, the cash management database is being re-written to provide an interface that will disallow any transaction that would exceed the lending limits.

5. Custodial responsibilities

The Company believes that its bank reconciliation records constitute “full and adequate accounts and records,” and that they comply with RCW 48.05.280. During prior financial examinations, the Company worked with Department examiners to audit the electronic reconciliation process for accuracy and adequacy of controls. The Company’s external auditors also have reviewed the process. In reliance on those reviews, the Company discontinued the practice of maintaining paper copies of custodian banks’ statements. The Company instead retains copies of electronic bank reconciliations, and these were available, and continue to be available, for review by the examiners. These electronic statements constitute complete records under 48.04.280. The Company knows of no requirement that these records be preserved in a printable format.

6. Insurer Holding Company Act violations

Within the Safeco group of companies and pursuant to the operation of existing intercompany agreements, we view employees who perform investment activity as employees of the entity for which they are performing investment services. For this reason, we believe it unnecessary to have an investment services agreement between the companies. However, the Company will comply with the instruction that a specific written agreement for investments be implemented.

COMMENTS AND RECOMMENDATIONS

1. Investment guidelines

The Company is considering the instruction that it maintain both individual company investment guidelines as well as individual state investment guidelines. The Company notes that it monitors investments for compliance with the Washington Code, and that this is a specific responsibility of the Corporate Finance compliance analyst. Corporate Finance has developed a comprehensive surveillance system to ensure that all Washington insurance company investments comply with the Washington investment code.

2. Custodial agreements

The Company is considering the proposal that all custodial agreements include a provision for legal succession.

Respectfully submitted,



Christine B. Mead
Senior Vice President and Secretary